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THE ESOTERIC MARX

ECONOFICTION CAPITAL, DERIVATIVES, FINANCE, MARX, MARXISM, OPTION

The fact that financial products are not only instruments of circulation, but also provide means for the accumulation of real wealth, is a problem that Marx briefly explores. It must be further demonstrated, however, what role financial capital and financial markets play in capitalist reproduction, firstly in the ongoing reproduction of commodity markets. Today, capital is a system whose accumulated real wealth is also dependent on the availability and organisation of liquidity by the financial system and its financial markets, where monetary prices of financial assets can independently rise from the output of consumer goods and far beyond their growth rates. Capitalist production has to be pre-financed *sui generis*, and the fact that asset markets grow faster than the material output of industrial production is a logical consequence of capitalisation, but is at the same time always bound to certain historical conditions.

Marx assigned financial instruments exclusively to the sphere of circulation and analysed their function separately from the functioning of the technologies or physical means of production that preserve past wealth. At the same time, financial instruments made possible a future demand for produced goods. In Marx, when it comes to value (analogous to energy and matter), it seems that there is often a kind of principle of conservation (substance), whereby the growth of real accumulated wealth can never be greater than the profits, which are produced and realised in industrial production in a given period (multiplied by the rate of surplus value, which gets discounted by the rate of investment), so that any increase in the value of constant capital through and in the form of the financial instruments does not come to its attention or is considered purely as fictitious wealth. (cf. Meister 2016: 156ff.) For the exoteric Marx, therefore, an economy's real growth can never be greater than the profit produced by industry. But this can no longer be valid for contemporary capital and the financial system and its financial instruments because the assets themselves are now the financial means to initiate and expand investments in the so-called real industry.

Marx's esoteric argument regarding the cycle of reproduction of capital instead describes how the production of commodities and services always creates a demand from investors

and namely for financial resources, which serve to maintain, accumulate and increase surplus value, in which financial resources are produced in the same process as the production of commodities and services. Thus, the production of commodities today must inevitably be linked at the same time to physical production *and* to the accumulation of the value of assets.

Concerning especially the functioning of the financial system, we now ask the following questions: what new types of financial assets must emerge today to secure and simultaneously expand capitalist reproduction as a whole? How can the variable relationship between asset markets and consumer and machine markets create conditions to which new movements in social conflicts respond? In *Capital*, Marx argues that the new types of financial assets used to accelerate capital accumulation have to be distinguished from money. For Marx, the general formula of capital cannot be simply $M-M'$, i.e. money that leads to more money. To produce real wealth, there must first be a monetary investment that functions differently from purely money and the exchange of commodities, since it must be invested in machines and working power. Marx takes note, of course, that surplus value is produced by workers for a wage, which has for capitalists the function to increase the effective demand for the commodities produced by the workers. However, Marx rarely registers that surplus value is maintained and accumulated by buying means of production that not only serve as means (constant capital), but also function as securities, which serve as a hedge against the danger that parts of the produced goods are not realised, so that the company can go bankrupt. The purchase of new production goods (constant capital) is only a partial solution to how wealth can be preserved and accumulated without hoarding money. The concept of constant capital is now also to be understood as a kind of security, insofar as capitalist production must be financed and the surplus resulting from it must be reinvested in new means of production. (Ibid: 20)

The production of financial instruments must definitely be understood as an alternative to saving money, by preserving and accumulating real wealth. For a financial investor, this means that the purchase of financial assets as a “version” of the formula $M-C-M'$ must be compared to the formula $M-M'$ – the former now understood as a strategy of hedging the value. In the formula $M-C-M'$, there are two substitutes for C (commodity), namely the monetary capital, which is invested in the labour force, and the monetary capital, which is invested in the means of production, acting, and this is the crux of the matter, as a means of production *and* as more or less liquid securities used to generate new cash.

For Robert Meister (Ibid.), the mode of relative[1] surplus value production immediately introduces the financial system’s logic into the mode of production (and circulation). His analysis investigates the effects that the financial system’s operations and methods have on the proper reproduction of the social relations between labour and capital. (Lee and Martin 2016: 155f.) Let us try the first explanation: the surplus value produced in a given production phase can on the one hand (if it is not simply hoarded as money) only be maintained in the next phase by an extended reinvestment in means of production and raw materials, and on the other hand, increased. Without multiplication, there is no preservation of capital. In expanding production capacities, capital invests in labour-power because it hopes for a spread between the labour force of money (the contribution of workers to GDP) and the monetary value of labour (wages). There are, however, different arbitrage possibilities to

increase profits for companies, especially when they operate with different technologies and different productivities. Still, these arbitrage possibilities are also eliminated in the course of the equalisation movements, which generate average profit rates. Otherwise, a dominant company would maintain and expand the extra profit endlessly, ultimately ending up in its eternal monopoly position.

For Marx, there are two different arguments that play a role in his analysis of the general formula $M-C-M'$. Concerning absolute surplus value, the argument consists first of all in the claim that the application of the labour force enables the production of a surplus value created by the workers, who are paid, in comparison to the total value produced by them, a smaller share of wages, with which they can buy those consumer goods they produce themselves. Methods of increasing surplus value intensify the process of work and the extension of the working day.

In the case of relative surplus value, the argumentation is different; it includes the problems of technological innovation, productivity and the organic composition of capital. Marx gets especially close to the problem of representation of the relation between the production of commodities and the production of assets in his analysis of relative surplus value production in *Capital*, Vol. 1. When it comes to the financial system, relative surplus value production is based on its first maxim, the law of one price. (Meister 2021: 20) This law states that two identical units of commodities should be sold at the same price regardless of the companies' respective costs, whatever the forms of production are, where raw materials are transformed into finished products with the help of machines and labour. However, the company is given a positive arbitrage opportunity regarding its investment in production if it can produce more or cheaper units of goods in a given working time than its competitors (through technological innovation). The creation of arbitrage via the more effective transformation of the raw material (one part of constant capital) is part of the increase in productivity through the investment in new machines (another part of constant capital). The extra surplus value for a company here is not generated by hiring new workers or by labour intensification, but by the fact that the finished product can be sold at a lower price (per unit) than the same product of other companies. This accumulation of wealth through relative surplus value production is quite real and material insofar as it derives from arbitrage over constant capital (and not from absolute surplus value, which corresponds to an increase in working hours or a growing number of jobs). Moreover, the esoteric Marxist argument remains related to the necessity of realising the final product on the market, which remains dependent on the consumer goods sector and the financial sector (consumer credit), which influences the former. Marx's concept of relative surplus value production leads to questions of real accumulation. In the last instance, it is the logic of financialisation that expresses itself in relative surplus value production and finally leads to the general law of capitalist accumulation. This law describes the creation of an increased production capacity (of constant capital) with the simultaneous growth of the surplus population, which can no longer be brought into wage labour at all due to the use of labour-saving techniques.

Two arguments play an important role in the presentation of the general formula of capital: $M-C-M'$. Besides the production of absolute surplus value, there is also relative surplus value production, where, first of all, the financialisation of producer goods and the workers allows

the capitalists to increase the material output in production. This happens by investing in better machines, raw materials, energy, software, etc., and simultaneously by reducing the cost of labour-power and the number of workers. The problem of realisation that inevitably follows from this includes the question of how it is possible at all to actualise the commodities as prices and to monetise them, thus generating further monetary funds. Marx deals with this problem in *Capital*, Vol. 2, which is often understood as if it is only about the balance of reproductive processes in and between the two sectors of production and consumer goods. The possibility that the prices of commodities are not realised is evident here. It follows that no further monetary funds can then be created or realised in money (non-realisation is also inherent in financial assets, unlike money, whose secret is that it does not have to be spent). Marx does not really discuss the relationship between market and liquidity because he attributes the problem of liquidity to the storage of the value of money.

The middle term of the formula $M-C-M'$ cannot be understood simply as a productively used commodity in the production process. Still, it must also be understood as a hedged portfolio that is priced out as capital. (Ibid: 24) The hedge itself, which is a marketable contract, has no use-value other than its exchange-value. It is quite understandable that in large corporations such as General Motors, the production goods are part of the portfolio of the company, containing bonds or options on the production goods. At this point, Randy Martin registers a shift from $M-C-M'$ to $M-D-M'$, where D stands for the derivative, which has now essentially the same function as the productively consumed goods (in production) insofar it also drives the self-movement of capital. (Lee and Martin 2016: 176) For example, buying options on raw materials that a company needs for its production processes can increase its own creditworthiness, which is now restricted against the risk of rising prices for raw materials. Simultaneously, the operations of a whole range of other players are influenced by this price index of this raw material. Risks are transferred, duplicated, multiplied and shifted to other spaces.

Marx shows in *Capital*, Vol. 3 that there has always been a problem of realisation for companies, among other things also when they invest by credit in the means of production, which can lose value during the production period (here because of the better innovations of other companies), so that the manufactured products can no longer be sold on the market at the historical average price. The credit can then possibly no longer be serviced. (Meister 2021: 21) The non-realisation of the market price for an end product or its sale below the average price results for the company in decreased monetary funds and a reduced possibility of using all raw materials and utilising the capacities/machinery to generate new higher monetary funds. This is a problem indicating that the investment must be hedged. The realisation problem and the used financial assets for it differ now from pure financial instruments, insofar as assets here are related to production goods and not serve solely as financial vehicles. Insofar as the former assets have a utility value that goes beyond their pure liquidity, they are not pure financial products, whose utility value consists solely in realising a price in a differential-immanent movement that generates returns on the financial markets.

What Marx could not know is that the realisation of the produced commodities can be hedged by the fabrication of puts and calls on options, which are related to the means of production and raw materials; thus, they tend to preserve at least the value of the investment

in machines and raw materials during the period in which they are transformed into finished products. Marx could still have not known that by fabricating options, it is possible to intervene in the price of a finished product that fluctuates on the market. The existence of a market for puts and calls – the continuous possibility of permanently pricing and monetizing the option – generates today also enough liquidity for the underlying market of production and consumer goods, which is a trend to eliminate the risks of their realisation. The “value” of the products is now increasingly preserved and at the same time accumulated in the form of financial assets by trading the spread between the market value of the asset, if it remains liquid at all, and the liquidation value of the asset. (Ibid.: 16) A fully liquid asset is also as good as cash and is then an alternative to saving money, whereby there is little risk that the asset cannot be immediately realised at its market price. To finance an asset that is not fully liquid, a liquidity premium must then be paid, either by executing a hedge or buying a more liquid security than the asset itself. The liquidation value of the asset will, in turn, be the money that one gets when selling the pledged security, and the liquidity premium will reflect the extent to which the original value of the security exceeds the value of the financial asset used to hedge the security.

Thus, the capitalist portfolio of a company consists not only of bonds and debts, but also of the puts and calls of the options with which hedging is done. Without the correct design of the price movements of puts and calls, there can be no robust recycling of the bonds and debts. (Ibid: 7) A call is here understood as the right to acquire a potentially infinite surplus, and a put is an instrument to limit the loss. Both are derivative means that indicate whether it is worthwhile for a company to invest in new capital stock to increase its capital storage and its profit, whereby the capital stock is just one of the means of increasing profit because the complementary form today is the financial asset, which shows that relative surplus production is just one way of exploiting the spreads in a particular market. Without pricing out the calls and puts and trading them on the derivative markets, it is impossible today to maintain a well-hedged portfolio, which consists of debts and bonds, in which the portfolio should have liquidity at all times. (Ibid.) Therefore, the M-C-M' formula describes C always as a portfolio consisting of debts and capital stock and puts and calls. Unlike money, these are here purely financial products. Their relation can be fixed in a financial formula, which describes the parity of debts and capital stock in terms which in turn are related to the parity of puts and calls. Therefore, the investment in C must, according to Meister, fulfil the following equation:

Stock + Put = Debt + Call. (Ibid: 24)

This formula involves a simple identity: if you have a capital stock and a put that includes a downward hedge, then you can replicate a return on an investment, which is equal to owning a call that fulfils the possibility of participating in a surplus based on the capital stock plus the current price of a loan. One can now use puts or calls to obtain a completely hedged portfolio, which in turn allows a return that is at least equal to the risk-free interest rate. The M-C-M' spiral thus includes a double arbitrage possibility, namely, on the one hand, playing with the spreads in the valuation of machines and labour, provided that the wage cannot be insured, and, on the other hand, a fully hedged portfolio based on call-put parity. The basis for hedging is the loan as well as the return on the investment. If this return of money, which always remains related to the credit taken by the company, is the paradigm of the portfolio

side of M-C-M', and if it is also related to the investments in wages, then the effects of the financial system on the production processes of companies are more complicated than Marx ever imagined.

In the derivatives markets, assets are not priced according to their existing values but rather in terms of an uncertain future value. When a commodity (e.g. a house) is sold before it physically exists, and derivatives (on the house) are taken, then the latter subordinate the production to circulation by giving an asset a floating and contingent value. However, every commodity other than consumer goods has liquidity and can serve as a vehicle for preserving and accumulating capital. Classical consumer commodities have no liquidity, insofar as no economically realisable options are embodied in them. The waged worker cannot invest; he must spend his money entirely on consumption and must therefore continuously offer his labour-power on the labour market to earn money for his consumption. And financial products such as health insurance, pension funds and student loans are today part of a household's cost of living, but instead of understanding them as an investment in one's own "human capital", they should rather be understood as a kind of tax, which is paid to financial capital.

To make it clearer: Marx accepts the worker, when he enters the labour market, as uncreditworthy and debt-free. It is precisely these characteristics that make him purely wage-dependent, and this means that he must buy his subsistence goods exclusively with his wages: for Marx, wage labour is a social relation in which the workers, beyond their exploitation, are forced to spend money immediately (after having received the wage) on consumer goods. Thus, the earned money (as a wage) cannot function as an asset that preserves and expands value. The question that arises here is how can capital guarantee the working class's consumption when it has to accelerate more and more accumulation through technological innovation which reduces jobs? Furthermore, neoliberalism has led to decreasing wages over the last few decades. Today, to reproduce themselves, it seems necessary for waged workers, in addition to earning a wage, to enter into debt. The reproduction of the labour force has thus long ceased to take place solely through wages but also through various financial instruments such as student loans, mortgage loans, health care, insurance, automobiles, condominiums and consumer loans, which are allocated to households by special credit companies at sometimes exorbitant interest rates of up to 20%. The relation between income and borrowing (debt currently accounts for 5-10% of income in developed countries) is influenced by factors such as the level of debt, income development and the level of interest rates. For example, student loans are divided by the state into tranches to be sold to third parties, who manage them as future investments. Thus, student loans function like the infamous mortgage loans that were blamed for the 2008 financial crisis. Today, an increasing portion of the wage is being used to buy financial products, such as health insurance and real estate loans, which in turn are used by financial institutions to create new financial instruments acting as vehicles for accumulating further wealth. Today, however, in many cases, the wage is only a part of buying the means of reproduction. Various financial products are now needed to secure the consumption of private households and protect their members against illness, old age, etc. However, these possibilities remain uncertain – they must therefore be hedged and thus financed, and this because their timelines and costs remain contingent on future events. Income streams that derive from

aspects of everyday life, such as cell phone bills, household water and electricity bills, etc., are fed as inputs into new financial instruments, and thus even the unsuspecting households with their small incomes are now dependent, through certain chains, on the trading of derivatives in global financial markets.

[1] Relative surplus value production explains the effects of capital resulting from technological innovation that increases productivity in a company. A relatively more productive company can sell an individual commodity (due to their reduction in value) cheaper than other companies and thus realise a larger part of the social mass of value for itself. As the means of reproduction becomes cheaper, the value of the commodity labour-power decreases. The share of variable capital also decreases in relation to the constant part (increase in the organic composition of capital). Still, this price reduction also leads to the fact that the labour force must produce less value to reproduce itself, so that the share of surplus value in the product itself increases again. But this is only valid for an individual capital; for total capital, the compensatory effect is only valid if the amount of labour force used productively increases in absolute terms. This is an aspect of the labour force, but there is also the technological effect.

In this context, Hans-Dieter Bahr noted that Marx, in chapters twelve and thirteen of the second volume of *Capital*, analytically divides production time (of capital) into working time and functional time of machinery. (cf. Bahr 1983: 434) According to Bahr, the same can be said of machines' functional time as of working time, the latter of which should be reduced by the methods of relative surplus value production per unit. Fixed capital or machinery has its own functional times, which, insofar as they are quantities bought by the company, must be reduced in the same way as the working time that goes into the individual product. And insofar as the functional time per unit of product decreases – this can happen through increased economies of scale, innovation, rationalisation and automation, etc. – there is no reason why the machinery or today's digital technology should be understood no less as a source of surplus value than human labour, if the new products, for a given labour input, realise a sales price higher than the purchase price of raw materials, means of production, wages, interest, etc. (insofar as this sales price is due to technologically induced rationalisation). Consequently, individual capital can also increase its share of the total social production if it succeeds in reducing its production times per unit by making the functional time of a machine more efficient – and not only by the condensation of working time – and thus reducing internal operational costs. A company achieves an extra profit compared to competing companies exactly when it succeeds in selling its products that have fallen in price per unit due to the application of new technologies, cheaper than those of other companies and therefore increases its market share. Production costs per unit fall faster in the most productive industries than in other industries due to the application of specific technological innovation. When new technologies are implemented in a whole sector of industry, then extra profits disappear, and socially necessary, valid working and functional time is condensed on a general level; according to Marx, average profit rates level off with a new quality, but these are repeatedly capped by new wave movements resulting from further technological innovations or disruptions. It must be added that technological innovations only take hold if sufficient profits and demand can be expected.

However, this represents an ideal process, which implies that efficiency (minimum material input per unit of output) means economic efficiency per se (minimum cost per unit of output). Economic efficiency means maximum profit. However, this may not always be true from several points of view: a) because it may even be efficient for the individual capital to use inefficient techniques or even to sell inefficient products; b) companies often make calculations in such a way that they determine average unit costs (costs at a given average level of output), to which they add an industry-standard mark-up in order to keep this price stable over longer periods or to adapt it to cyclical changes in demand, with the aim of achieving long-term profit rates at a constant level; c) It also happens, of course, that in some companies there is almost no “real value creation” at all in terms of labour, but they still absorb and realise a part of the total input of so-called abstract labour at the level of total capital, so that the internal productivity standard is almost irrelevant.

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